



**Mary Taylor, CPA**  
Auditor of State



OLMSTED TOWNSHIP  
CUYAHOGA COUNTY

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Mary Taylor, CPA  
Auditor of State

Olmsted Township  
Cuyahoga County  
26900 Cook Road  
Olmsted Township, Ohio 44138

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 20, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Olmsted Township  
Cuyahoga County  
26900 Cook Road  
Olmsted Township, Ohio 44138

To the Board of Trustees:

We have audited the accompanying financial statements of Olmsted Township, Cuyahoga County, Ohio, (the Township) as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Olmsted Township, Cuyahoga County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 2 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA  
Auditor of State

November 20, 2007



**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$567,849	\$1,693,756	\$0	\$2,261,605
Intergovernmental	1,094,249	394,782	0	1,489,031
Licenses, Permits, and Fees	1,201,410	94,319	0	1,295,729
Fines, Forfeitures, and Penalties	0	0	15,593	15,593
Earnings on Investments	37,629	1,951	15,455	55,035
Other Revenue	110,863	32,042	0	142,905
	3,012,000	2,216,850	31,048	5,259,898
<b>Total Cash Receipts</b>				
	3,012,000	2,216,850	31,048	5,259,898
<b>Cash Disbursements:</b>				
Current:				
General Government	775,423	0	0	775,423
Public Safety	1,077,513	2,027,347	0	3,104,860
Public Works	766,491	527,811	0	1,294,302
Health	0	37,534	0	37,534
Debt Service:				
Redemption of Principal	0	0	0	0
Interest and Fiscal Charges	0	0	36,393	36,393
Capital Outlay	215,387	40,979	95	256,461
	2,834,814	2,633,671	36,488	5,504,973
<b>Total Cash Disbursements</b>				
	2,834,814	2,633,671	36,488	5,504,973
<b>Total Receipts Over/(Under) Disbursements</b>	177,186	(416,821)	(5,440)	(245,075)
<b>Other Financing Receipts and (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Sale of Bonds	0	0	2,807,279	2,807,279
Sale of Fixed Assets	0	0	25	25
Transfers-In	0	46,832	0	46,832
Advances-In	0	152,051	0	152,051
Transfers-Out	(40,000)	(6,832)	0	(46,832)
Advances-Out	(152,051)	0	0	(152,051)
	(192,051)	192,051	2,807,304	2,807,304
<b>Total Other Financing Receipts/(Disbursements)</b>				
	(192,051)	192,051	2,807,304	2,807,304
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	(14,865)	(224,770)	2,801,864	2,562,229
<b>Fund Cash Balances, January 1, 2004</b>	2,516,991	644,832	5,326	3,167,149
<b>Fund Cash Balances, December 31, 2004</b>	<b>\$2,502,126</b>	<b>\$420,062</b>	<b>\$2,807,190</b>	<b>\$5,729,378</b>
<b>Reserve for Encumbrances, December 31, 2004</b>	<b>\$187,429</b>	<b>\$25,833</b>	<b>\$0</b>	<b>\$213,262</b>

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**1. REPORTING ENTITY**

Olmsted Township, Cuyahoga County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township provides general governmental services including road maintenance, police and fire protection and emergency medical services.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**A. Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general governmental services including road maintenance, police and fire protection and emergency medical services.

**B. Component Units**

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township.

There are no Component Units affiliated with the Township.

**C. Public Entity Risk Pools**

The Township participates in one public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is the Ohio Government Risk Management Plan.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As described further in Note 2C, these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

***A. Basis of Presentation***

The Township's basic financial statements for fiscal year 2004 consist of a statement of cash receipts, cash disbursements, and changes in fund cash balances.

***B. Fund Accounting***

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The Township's funds are all classified as governmental.

***Governmental Funds***

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. For fiscal year 2004, the Township classified its governmental funds into the following types:

**General Fund**—The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. It is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds**—These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

*Police Levy Fund* – This fund is used to account for property tax revenue used to provide police protection services.

*Fire Levy Fund* – This fund is used to account for property tax revenue used to provide fire protection services.

**Capital Project Fund**—This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant capital project fund:

*Capital Equipment Fund* – This fund is used to account for purchases of equipment financed with general operating moneys designated by the Trustees.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***B. Fund Accounting (Continued)***

***Fiduciary Funds***

Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Township has no fiduciary funds.

***C. Basis of Accounting***

For the year ending December 31, 2004, the Township's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

***D. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund level (object level) for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

***E. Cash and Investments***

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records.

During 2004, the Township invested in Certificates of Deposit, repurchase agreements, and STAR Ohio.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***E. Cash and Investments (Continued)***

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Repurchase agreements and certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2004 was \$37,629 which includes \$13,962 assigned from other Township funds.

***F. Inventory and Prepaid Items***

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

***G. Capital Assets***

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

***H. Interfund Receivables/Payables***

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

***I. Accumulated Leave***

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's cash basis of accounting.

***J. Employer Contributions to Cost-Sharing Pension Plans***

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***K. Long-Term Obligations***

The Township's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an "other financing source" nor a "capital outlay" expenditure are reported at inception. Lease payments are reported when paid.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Fund Balance Reserves**

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

**NOTE 3 – COMPLIANCE**

Contrary to Ohio Revised Code Section 5705.41(B), the following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2004 at the legal level of control:

Fund	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund			
Administration			
Salary—Township Fiscal Officer	\$21,000	\$23,759	\$2,759
Townhall, Memorial Building, and Grounds			
Other Expenses	642	1,030	388
Motor Vehicle License Tax Fund			
Operating Supplies	\$2,500	\$3,000	\$500
Permissive Motor Vehicle License Tax Fund			
Other—Supplies and Materials	\$12,882	\$21,806	\$8,924
COPS FAST Grant Fund—State			
Other—Salaries	\$1,363	\$1,723	\$360
DARE Grant Fund			
Other—Salaries	\$854	\$4,410	\$3,556
Other—Other Expenses	0	1,000	1,000
Capital Equipment Fund			
Interest Payments	\$0	\$36,393	\$36,393

The Township was in violation of Ohio Revised Code Section 5705.41(D). The Township had 37 of 155 invoices tested (24%) which were entered into prior to receiving the Fiscal Officer's certification.

In order to address the budgetary violations of Ohio Revised Code Sections 5705.41(B) and (D), the Township intends to closely monitor expenditures and encumbrances to eliminate these weaknesses in future periods.

The Township was in violation of Ohio Revised Code Section 9.38. The Township had 23 of 64 receipts tested (36%) that were not timely deposited. The Township intends to review depositing procedures to eliminate this weakness in future periods.

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The Township had outstanding encumbrances at year-end (budgetary basis) in the General Fund and Special Revenue Funds.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (Continued)**

For fiscal year ending December 31, 2004, the Township reported the following budgetary activity regarding budgeted receipts and appropriations:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,310,434	\$3,012,000	\$701,566
Special Revenue	2,453,733	2,263,682	(190,051)
Capital Projects	2,785,442	2,838,352	52,910
Total	\$7,549,609	\$8,114,034	\$564,425

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,550,700	\$3,062,243	\$488,457
Special Revenue	2,715,834	2,666,336	49,498
Capital Projects	23,068	36,488	(13,420)
Total	\$6,289,602	\$5,765,067	\$524,535

**NOTE 5 – DEPOSITS AND INVESTMENTS**

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2004, \$391,774 of the Township's bank balance of \$591,774 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.



**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

At December 31, 2004, the Township had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	\$4,251,089	Less than One Year
Repurchase Agreement	<u>949,193</u>	Less than One Year
Total Investments	<u>\$5,200,282</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. Ohio law addresses interest rate risk by requiring that the Township's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Township's investment policy addresses interest rate risk by specifying that investments are to be matched with anticipated cash flow requirements; the Township will attempt to meet or exceed the market average rate of return on the investment portfolio; the investment portfolio shall remain sufficiently liquid to enable the Township to meet reasonable anticipated operating requirements; investments are to be reasonably expected to be held until maturity; and the investment portfolio shall be diversified in order to avoid incurring potential losses regarding individual securities which may not be held to maturity.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**NOTE 6 – PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 6 – PROPERTY TAXES (Continued)**

Tangible personal property tax receipts received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Township operations for the year ended December 31, 2004 was \$73.01, per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

	<u><b>2004</b></u>
Agricultural/Residential/ Other Real Estate	\$182,854,240
Public Utility Personal Property	7,381,390
Tangible Personal Property	<u>3,495,689</u>
Total Assessed Value	<u>\$193,731,319</u>

**NOTE 7 – RISK MANAGEMENT**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 7 – RISK MANAGEMENT (Continued)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004:

	<b>2004</b>
Assets	\$6,685,522
Liabilities	<u>(2,227,808)</u>
Members' Equity	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

**Ohio Public Employees Retirement System**

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$207,007, \$132,774, and \$159,445 respectively. The full amount has been contributed for 2004, 2003, and 2002.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

**Ohio Police and Fire Pension Fund**

The Township contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Township is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by Ohio Revised Code. The Township's contributions to the fund were \$203,450 for the year ended December 31, 2004, \$173,347 for the year ended December 31, 2003 and \$149,797 for the year ended December 31, 2002, equal to the required contributions for each year. The full amount has been contributed for 2004, 2003, and 2002.

**NOTE 9 – POSTEMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans as of December 31, 2004 was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$86,705. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 9 – POSTEMPLOYMENT BENEFITS (Continued)**

**Ohio Public Employees Retirement System (Continued)**

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Township actual contributions for 2004 that were used to fund postemployment benefits were \$68,437 for police and \$47,544 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

**NOTE 10 – DEBT**

Debt outstanding at December 31, 2004 was as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Building Improvement Bonds, 2004	1.55%-- 4.50%	\$0	\$2,880,000	\$0	\$2,880,000	\$100,000
<b>Total</b>		<b>\$0</b>	<b>\$2,880,000</b>	<b>\$0</b>	<b>\$2,880,000</b>	<b>\$100,000</b>

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 10 – DEBT (Continued)**

During 2004, the Township issued general obligations bonds to pay costs of constructing, furnishing, and equipping new Police, Fire, Service and Building Department buildings, and renovating, furnishing, and equipping the existing Town Hall. The maximum maturity of these bonds is twenty years.

The following is a summary of the Township's future annual debt service requirements:

Year	<u>Principal</u>	<u>Interest</u>
2005	\$100,000	\$108,931
2006	100,000	107,381
2007	100,000	105,581
2008	100,000	103,081
2009	125,000	100,081
2010-2014	625,000	436,031
2015-2019	780,000	305,756
2020-2024	950,000	130,968
<b>Totals</b>	<u><u>\$2,880,000</u></u>	<u><u>\$1,397,810</u></u>

**NOTE 11 – SUBSEQUENT EVENTS**

On March 30, 2005, the Township accepted the following bids for construction of the fire station:

<u>Contractor</u>	<u>Amount of Contract</u>
Seitz Builders	\$1,129,600
John F. Gallagher Co.	90,884
Olmsted Heating & Cooling	67,549
Skyland Electric	105,000

The Township accepted the following bids on the following dates for construction of the service department garage:

<u>Contractor</u>	<u>Date Approved</u>	<u>Contract Amount</u>
Jance Construction	May 12, 2005	\$135,700
Seitz Builders	August 4, 2005	\$800,000

On November 8, 2005, voters within the Township approved the passage of a replacement levy of 1.5 mills for police department operations, and a replacement levy of 1.5 mills for fire department operations.

On June 29, 2006, the Township awarded the Oxford Park Resurfacing project to Tri-Mor Construction in the amount of \$494,801.50.

On May 16, 2007, the Board of Trustees approved a resolution approving settlement agreements with six construction contractors associated with the Olmsted Township Facilities Improvement Program. The resolution approved the following payments:

<u>Contractor</u>	<u>Payment</u>
Seitz Builders	\$148,986.00
John F. Gallagher Company	38,398.17
Olmsted Heating & Cooling	2,676.48
Skyland Electric	19,971.60
Jance Construction, LLC	24,713.00
Lakeland Management Systems	137,179.00

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 12 – CONTINGENT LIABILITIES**

**Pending Litigation**

The Township is a defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Olmsted Township  
Cuyahoga County  
26900 Cook Road  
Olmsted Township, Ohio 44138

To the Board of Trustees:

We have audited the financial statements of Olmsted Township, Cuyahoga County, Ohio (the Township) as of and for the year ended December 31, 2004, and have issued our report thereon dated November 20, 2007 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-007 listed above to be a material weakness. In a separate letter to the Township's management dated November 20, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 through 2004-006. In a separate letter to the Township's management dated November 20, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

November 20, 2007

OLMSTED TOWNSHIP  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004- 001
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**Finding for Recovery**

**Payment of Accumulated Sick Time**

During our review of payroll expenditures made during fiscal year 2004, we noted two Township Police Department employees who each received four payments of portions of their accumulated sick leave balances throughout fiscal year 2004, in violation of their union agreement.

John W. Minek was a Lieutenant in the Olmsted Township Police Department during fiscal year 2004. David G. Tkachik was a Sergeant in the Olmsted Township Police Department during fiscal year 2004. During that time, both employees were covered under the *Agreement Between Olmsted Township and Ohio Patrolmen's Benevolent Association* for the period January 1, 2002 to December 31, 2004. Section 12.01 of this agreement states in part that, "all regular, full-time employees shall be entitled to sick leave of 4.6 hours for each eighty (80) hours of service. Employees may use sick leave upon approval of the responsible administrative officer, for absence due to illness, injury, exposure to contagious diseases which could be communicated to other employees, and to illness in the employees' immediate family, defined as spouse or children."

Section 12.03 of this agreement states that, "upon death or retirement, all sick leave accumulated up to the point of ratification of the 1996-1998 Agreement shall be paid to the employee or his or her estate or personal representative designated by the employee at the employee's rate of pay at the time of death or retirement. For all sick leave accumulated after ratification of the 1996-1998 Agreement, the pay out shall be at the rate of one-third (1/3) of all accumulated sick leave at the employee's rate of pay at the time of death or retirement."

During fiscal year 2004, John Minek cashed out 460 hours of his accumulated sick leave, receiving a total sick time payout of \$11,780.70 (gross wages) from Olmsted Township. Since the aforementioned conditions governing the payout of sick leave per the *Agreement Between Olmsted Township and Ohio Patrolmen's Benevolent Association* did not occur, John Minek was not entitled to the sick time payout.

During fiscal year 2004, David Tkachik cashed out 320 hours of his accumulated sick leave, receiving a total sick time payout of \$7,443.20 (gross wages) from Olmsted Township. Since the aforementioned conditions governing the payout of sick leave per the *Agreement Between Olmsted Township and Ohio Patrolmen's Benevolent Association* did not occur, David Tkachik was not entitled to the sick time payout. In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28 a Finding for Recovery for public monies illegally expended is hereby issued against Lisa Lambert, former Fiscal Officer, and Travelers Casualty and Surety Company of America of Hartford, Connecticut, her bonding company, jointly and severally in the amount of \$19,223.90 and in favor of Olmsted Township. In addition, John W. Minek is jointly and severally liable for \$11,780.70 of the \$19,223.90, and David G. Tkachik is jointly and severally liable for \$7,443.20 of the \$19,223.90. This finding of \$19,223.90 is in favor of the Police District Fund (Fund 2081).

OLMSTED TOWNSHIP  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004- 002
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**Finding for Recovery**

**Overpayment of Employees**

During our review of payroll expenditures made during fiscal year 2004, we noted two Township Fire Department employees whose base salaries and overtime payments were calculated incorrectly throughout the year, causing these employees to be overpaid.

John Lavelle and John Rice were both Lieutenants in the Olmsted Township Fire Department during fiscal year 2004. During that time, they were covered under the *Agreement Between Olmsted Township and Olmsted Township Professional Fire Fighters Union Local 2845* for the period January 1, 2004 to December 31, 2006. Appendix A of this agreement sets forth the salary schedule for firefighters/EMT's, rank differentials for Lieutenants and Captains, longevity pay, paramedic premium, mechanic premium, and fire inspector pay.

John Lavelle began employment with the Olmsted Township Fire Department on April 1, 1991. Per the union agreement under which he was covered, as part of his annual salary he received a 1% longevity pay increase on April 1, 2004, a 10% pay differential for being a Lieutenant in the department, and a \$1,500 paramedic premium (which is included in the employee's base salary for determining his hourly overtime rate). His annual salary is divided by 26 pays to determine his bi-weekly salary base. His annual salary is divided by 2,756 hours (per the union agreement) to determine his hourly rate. This hourly rate is multiplied by a factor of 1.5 (per the union agreement) to arrive at the employee's hourly overtime rate.

Based on the aforementioned criteria, John Lavelle's bi-weekly base pay from January 1, 2004 through March 31, 2004 should have been \$1,936.00, and his hourly overtime rate for this period should have been \$28.21. His bi-weekly base pay from April 1, 2004 through December 31, 2004 should have been \$1,955.36, and his hourly overtime rate for this period should have been \$28.49. These bi-weekly base pays and overtime rates should have resulted in a total gross pay for fiscal year 2004 of \$54,686.94 (not including paramedic premium). However, the former Fiscal Officer incorrectly calculated both John Lavelle's base pay and overtime rate throughout the entire year, paying him a total gross pay of \$57,014.88 (not including paramedic premium). This results in an overpayment of \$2,327.94.

John Rice began employment with the Olmsted Township Fire Department on June 1, 1997. Per the union agreement under which he was covered, as part of his annual salary he received a 1% longevity pay increase on June 1, 2004, a 10% pay differential for being a Lieutenant in the department, \$750 additional base wages for being a fire inspector, and a \$1,500 paramedic premium (which is included in the employee's base salary for determining his hourly overtime rate). His annual salary is divided by 26 pays to determine his bi-weekly salary base. His annual salary is divided by 2,756 hours (per the union agreement) to determine his hourly rate. This hourly rate is multiplied by a factor of 1.5 (per the union agreement) to arrive at the employee's hourly overtime rate.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2004- 002</b>
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**Finding for Recovery (Continued)**

**Overpayment of Employees (Continued)**

Based on the aforementioned criteria, John Rice's bi-weekly base pay from January 1, 2004 through May 31, 2004 should have been \$1,852.65, and his hourly overtime rate for this period should have been \$27.03. His bi-weekly base pay from June 1, 2004 through December 31, 2004 should have been \$1,870.89, and his hourly overtime rate for this period should have been \$27.29. These bi-weekly base pays and overtime rates should have resulted in a total gross pay for fiscal year 2004 of \$53,128.36 (not including paramedic premium). However, the former Fiscal Officer incorrectly calculated both John Rice's base pay and overtime rate throughout the entire year, paying him a total gross pay of \$55,568.08 (not including paramedic premium). This results in an overpayment of \$2,439.72.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28 a Finding for Recovery for public monies illegally expended is hereby issued against Lisa Lambert, former Fiscal Officer, and Travelers Casualty and Surety Company of America of Hartford, Connecticut, her bonding company, jointly and severally in the amount of \$4,767.66 and in favor of Olmsted Township. In addition, John Lavelle is jointly and severally liable for \$2,327.94 of the \$4,767.66, and John Rice is jointly and severally liable for \$2,439.72 of the \$4,767.66. This finding of \$4,767.66 is in favor of the Fire District Fund (Fund 2111).

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2004- 003</b>
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**Material Noncompliance**

**Timely Depositing**

Ohio Revised Code Section 9.38 provides that any public official and/or employee who receive public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total received exceeds one thousand dollars. If the total amount of the public money received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

During our test of licenses, permits, and fees revenue, we noted 23 out of 64 receipts tested (36%) were not deposited into the designated depository in accordance with the aforementioned provisions. The range of those receipts not deposited in a timely manner varied between \$40 and \$125,530.

We recommend the Township take the necessary steps to comply with the aforementioned Ohio Revised Code section, specifically, that all deposits be made in a timely manner. We recommend all Township departments either deposit monies collected with the Treasurer or its local depository on the next business day following the day of receipt or the Township adopt a policy requiring all monies collected to be deposited with the Treasurer or properly designated depository within three business days following the day of receipt, if the total amount of such monies is less than \$1,000. Additionally, such a policy must include procedures to safeguard the monies until the time of deposit.

<b>Finding Number</b>	<b>2004- 004</b>
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**Material Noncompliance**

**Expenditures Plus Encumbrances in Excess of Appropriations**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Board of Trustees may not exceed appropriations at the legal level for all funds. The following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2004 at the legal level of control (object level):

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2004- 004</b>
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**Material Noncompliance (Continued)**

**Expenditures Plus Encumbrances in Excess of Appropriations (Continued)**

Fund	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund			
Administration			
Salary—Township Fiscal Officer	\$21,000	\$23,759	\$2,759
Townhall, Memorial Building, and Grounds			
Other Expenses	642	1,030	388
Motor Vehicle License Tax Fund			
Operating Supplies	\$2,500	\$3,000	\$500
Permissive Motor Vehicle License Tax Fund			
Other—Supplies and Materials	\$12,882	\$21,806	\$8,924
COPS FAST Grant Fund—State			
Other—Salaries	\$1,363	\$1,723	\$360
DARE Grant Fund			
Other—Salaries	\$854	\$4,410	\$3,556
Other—Other Expenses	0	1,000	1,000
Capital Equipment Fund			
Interest Payments	\$0	\$36,393	\$36,393

We recommend the Township verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted to maintain compliance with the above requirements.

<b>Finding Number</b>	<b>2004- 005</b>
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**Material Noncompliance**

**Proper Encumbrance of Funds**

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2004- 005</b>
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**Material Noncompliance (Continued)**

**Proper Encumbrance of Funds (Continued)**

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our testing of nonpayroll disbursements, we tested 64 nonpayroll checks issued during the audit period. These 64 checks were comprised of 155 individual invoices. Testing indicated 37 of these 155 invoices (24%) were entered into prior to receiving the Fiscal Officer's certification. We also noted 5 instances out of the 155 individual invoices (3%) in which a payment was made on a "then and now" purchase order, but the "then and now" purchase order was issued for an amount exceeding \$3,000.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.



OLMSTED TOWNSHIP  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number

2004- 005

**Material Noncompliance (Continued)**

**Proper Encumbrance of Funds (Continued)**

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number

2004- 006

**Material Noncompliance**

**Maintaining Original Contract Documentation**

Ohio Revised Code Section 149.351 states in part, "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

During fiscal year 2004, the Township entered into a contract for the construction of a Police Station. This construction project was competitively bid and multiple vendors submitted bids for the project. The bid award was \$943,900 and it was approved by the Board of Trustees on August 19, 2004. Upon review of the bid documents, we noticed that information on some bid forms, supplied by the Township with the original contract documents, appeared to have been altered. For example, some pages of the bid form were photocopies, whereas other information on the same bid form appeared to have been written in blue ink, which may give the appearance that it was not original bid information.

We attempted to confirm the bids with all vendors who submitted bids for the project. We could not obtain confirmation from all vendors (including the contract winner) due to the fact that the information was either disposed of because it was too old, or because they failed to respond. For those contractors that did respond, it appears that the information they submitted for the confirmation agreed to the information located in the original bid files we reviewed.

Failing to maintain original contract documentation could result in a loss of accountability over the Township's finances and make it difficult for the Township to identify errors which would go undetected. In addition, failing to maintain original contract documentation could result in the Township awarding the contract to a vendor that may not have submitted the lowest bid on their original bid form, which may indicate an improper interest in a contract by a public official.

We recommend the Township maintain only original public records as required by the Ohio Revised Code.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>Finding Number</b>	<b>2004- 007</b>
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**Material Weakness**

**Organization of Public Records**

The primary source of information in conducting an audit is the records maintained by the Township. Organized public records result in a more efficiently run audit. Township management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that are designed to record, process, summarize, and report transactions consistent with management's assertions. Also, the fair presentation of financial statements, in accordance with either generally accepted accounting principles or another comprehensive basis of accounting, is a direct and integral part of management's responsibility to provide reliable and accurate information.

The Township Fiscal Officer that was in office during the audit period resigned effective June 1, 2006. The current Fiscal Officer took office shortly thereafter. It appears that the information system maintained by the former Fiscal Officer was made it difficult for the current Fiscal Officer to determine the existence, organization, and accuracy of the public records and to provide the audit information in a timely manner. This also resulted in numerous requests for information and delays in the audit process, as there were delays in necessary information to finish portions of the audit.

In addition, we noted the Township's cash balances were not reconciled for the entire fiscal year 2005. Our original audit period was intended to cover January 1, 2004 through December 31, 2005; however, the fiscal year 2005 cash reconciliation issues resulted in a shortened audit period, encompassing fiscal year 2004 only, since fiscal year 2004 cash balances were reconciled at year end. The Township has hired an outside entity to reconcile their cash balances for the entire fiscal year 2005 and the first half of fiscal year 2006.

The absence of organized public records could result in the Township's inability to detect errors in a timely manner, cash reconciliation issues, and the possibility of theft or losses that may go undetected.

We recommend the Township develop and maintain a system of control and organization over financial records such that all records are sufficiently organized and available for efficient use by Township management and external parties as appropriate. We also recommend the Township develop policies and procedures regarding safekeeping and transferring of Township records between Fiscal Officers when a new Fiscal Officer takes office. In addition, the Board should periodically monitor the records maintained and review the monthly bank reconciliations, sign off, and record the results of this review in their monthly Board meetings.

We did not receive a response from officials to the findings reported above.

**OLMSTED TOWNSHIP  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Proper Encumbrance of Funds	No	Reissued as 2004-005





**Mary Taylor, CPA**  
Auditor of State

**OLMSTED TOWNSHIP**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 24, 2007**